



Arizona State Retirement System

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Special Notice

Information on Furloughs, Salary Reduction programs

Questions?

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The Arizona State Retirement System has recently received a number of inquiries related to the effects on retirement benefits that may be caused by furloughs, forced salary reductions and other measures that may be taken by employers during these difficult economic times.

A member's retirement benefit in the **Defined Benefit Plan** is determined by a formula that takes into account average annual salary at the time of retirement, years of service, and a graded multiplier that increases with years of service. Once a benefit is calculated, it provides for a lifelong benefit that can never be reduced except for provisions under the retirement option selected at retirement.

Factors that make up those components, however, can be affected by furloughs and salary reductions. So, the short answer is that retirement benefits can indeed be affected by furloughs and/or salary reductions, especially if the member plans to retire in the near future. Here are more details:

Question: How might a furlough affect my retirement benefit?

Answer: Let's look at each of the components to the benefit formula:

Average Annual Salary

The average annual salary is calculated using a consecutive 36-month period. That is, for members who began contributing to the ASRS on or after January 1, 1984, the ASRS averages your highest 36 consecutive months of salary within the last 120 months (10 years) of service. (For members who began contributing before January 1, 1984, the ASRS uses a 60-month period, rather than the 36-month period, if the 60-month average, including leave pay-offs, results in a higher retirement benefit.)

So, if your salary is reduced in one of those three years that are used to determine your "average annual salary," it can have an effect on your final pension calculation. If the furlough is for one day a month, this would have the effect of reducing salary by 5 percent. The following example shows how

the member's retirement benefit would be affected by a furlough of one day each two-week pay period.

An employee who was first hired after January 1, 1984 and is earning \$30,000 a year is furloughed for one day each two-week pay period for a year (a 10% reduction). The employee's salary for the furlough year will be reduced by \$3,000 to \$27,000 (10% of \$30,000). This would result in a reduction of \$1,000 a year in average annual compensation (\$3,000 divided by three years or 36 months) when the ASRS calculates retirement benefits if the furlough year is within the highest 36 months of the employee's final 120 months of employment. If the employee is entitled to a 60% pension the employee's lifetime pension would be reduced by \$600 a year or \$50 a month during the member's retired life.

Years of Service

Furloughs likely would not affect the years of service component of the formula. That's because members earn one month of service credit for any amount of time worked in that month, even if it's just one day. However, if a member were furloughed for an entire month in which no contributions were received by the ASRS on behalf of that member, the member would not earn any service credit for that month. The result may be that the member would have to work one month longer than planned in order to reach normal retirement.

Graded Multiplier

The graded multiplier likely would not be affected by a furlough, unless it was for an extended period of time. That's because the graded multiplier increases based on five-year increments. It is set at 2.1% for 0-19.99 years of service; 2.15% for 20-24.99 years; 2.20% for 25 to 29.99 years; and 2.30% for 30.0 or more years of service.

(Note: For additional details and statute citations related to how the ASRS will treat furloughs, please see the additional Fact Sheet - Furloughs.)

Q: How else could I be affected?

A: A furlough could reduce your hours enough to drop you below ASRS eligibility altogether. Here's how:

For members who work less than full time, but enough to meet ASRS eligibility, a furlough could affect your ASRS membership eligibility if the furlough drops you below the minimum hours/days eligibility requirement. Members who work more than 20 hours a week for 20 or more weeks a year are required to contribute to the ASRS. Members who work less than 20 hours a week or less than 20 weeks a year are not eligible for ASRS membership.

Q: Do I have any options for regaining what I may lose from a furlough?

A: If your furlough is for one full month or more, you may be eligible to regain that time through the ASRS Service Purchase benefit. Under this benefit, you may be eligible to purchase the time as "Unpaid Leave of Absence." To learn more about this, and the potential costs, visit the ASRS website and select the "Forms" category, and use the Service Purchase Calculator.

Q: What happens if I am severed from my position?

A: If you are terminated, you have several options with regard to your ASRS account. If you are no longer employed by an ASRS employer, you may:

- 1) Leave your account balance with the ASRS. Interest will accumulate at a rate of 8 percent. Upon reaching early retirement or normal retirement, you can apply for your retirement benefit at that time. In the meantime, you retain your options for other benefits, including the ASRS retiree health insurance benefit when you retire, and you still will keep your survivor benefit;
- 2) Withdraw your account balance and roll it over into another qualified retirement program; or
- 3) Request a refund of your account balance. Refunding your account will forfeit any rights to future benefits, and may have serious tax consequences, especially if you are younger than 59½. If you are terminated, the ASRS strongly suggests you consult an ASRS benefits advisor, and/or your personal financial planner or tax consultant.

To learn more about these options, visit our website and select the “Forms” category and review the Withdrawal of Contributions and Termination of Membership information.

Please contact the ASRS at any of the numbers listed above if you have any questions about how a furlough, salary reduction or termination may affect your retirement benefits.